[COMMITTEE PRINT]

ENERGY PROGRAM

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SUMMARY OF THE ADMINISTRATION'S ENERGY PROPOSALS AND SUMMARY OF ENERGY LEGISLATION IN THE 94TH CONGRESS

Prepared for the

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

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JOINT COMMITTEE ON TAXATION

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INTRODUCTION

This pamphlet is intended to provide a summary of the Administration's energy program for the use of the Committee on Ways and Means during its consideration of the tax proposals in the program. The pamphlet sets forth the Administration's energy program in three categories: (1) the tax proposals which are to be considered by the Committee on Ways and Means and closely related nontax legislative proposals to be considered by other committees, (2) the other major nontax legislative proposals which are to be considered by other committees, and (3) the provisions in the Administration's program which are to be dealt with by administrative action and do not require new legislation. In the tax portion of the pamphlet, the tax recommendations are presented with attention to specific details in order to provide the Committee on Ways and Means with a basis for its considerations of the proposals. The portions of the pamphlet relating to the nontax legislative proposals and the administrative aspects of the program are summarized in more general terms in order to set forth for the committee the broad context of the entire program.

The pamphlet also contains a summary of the energy legislation which was considered in the 94th Congress. The summary of the legislative action on H.R. 6860, The Energy Conservation and Conversion Act, is in some detail since it contains the tax provisions dealt with by the Committee on Ways and Means in 1975. This is a summary of the bill as reported to the House by the Ways and Means Committee, the bill as passed the House, and the consideration of the various provisions of the bill by the Senate. H.R. 6860 was not acted on by the Senate, and thus it did not become law. Since many of its provisions appear in the Administration's energy program, the staff believes it is important to summarize how these provisions were dealt with as they went through the legislative process. In addition, the summary includes the energy program that was proposed by the Ford Administration and the major energy bills enacted in the 94th Congress are summarized in this pamphlet.

This is the first of a series of pamphlets being prepared by the Joint Committee staff to provide more detailed analysis of the Administration's program and the various other alternatives that will be developed for consideration by the Committee on Ways and Means.

ADMINISTRATION PROPOSALS RELATING TO ENERGY

TAX PROPOSALS

I. Conservation

A. Transportation

1. Fuel inefficiency tax and rebate

A graduated fuel inefficiency excise tax would be imposed on the sale or initial lease of new passenger automobiles and light-duty trucks whose fuel economy fails to meet the fuel economy standards similar to those enacted under the Energy Policy and Conservation Act (Public Law 94–163, December 22, 1975). These standards are 18 miles per gallon for 1978 model year cars, 19 miles per gallon for 1979 model year cars, 20 miles per gallon for 1980 model year cars, 21.5 miles per gallon for 1981 model year cars, 23 miles per gallon for 1982 model year cars, 24.5 miles per gallon for 1983 model year cars, 26 miles per gallon for 1984 model year cars, and 27.5 miles per gallon for 1985 model year cars.

In the case of 1978 model year automobiles, the tax would range from $52 to $449 for those automobiles failing to meet the standards. For 1981 model year automobiles, the tax would range from $52 to $935. For 1985 and later model year automobiles, the tax would range from $67 to $2,488.

The exemption from manufacturers excise taxes generally provided with respect to sales to State or local governments and nonprofit educational organizations would not apply to the fuel inefficiency tax.

Graduated rebates would be given with respect to sales or initial leases after May 1, 1977, of new, domestically manufactured passenger automobiles whose fuel economy exceeds the applicable fuel economy standard. The Secretary of Treasury would adjust the rebate schedule each year in advance so that the total estimated rebate payments would approximate as closely as possible the estimated tax receipts from the fuel inefficiency tax. The adjustment would entail the application of a "rebate coefficient," determined each year, to statutorily established "base rebates." Subject to slight variations from year to year, the approximate range of the rebates is from $50 (for automobiles exceeding the applicable fuel economy standard by at least 1 mile per gallon) to $500 (for automobiles exceeding 39 miles per gallon).

Rebates would also be available for vehicles manufactured in Canada. With respect to vehicles manufactured in other countries, rebates would be available on the basis of executive agreements entered into between these countries and the United States. The executive agreements are to be designed so that domestic automobile manufac-

turers are not disadvantaged vis-a-vis foreign automobile manufacturers under the tax and rebate system.

Purchasers of electric automobiles would be entitled to the highest applicable rebate.

For budget accounting purposes, payments under the fuel inefficiency tax would be treated as receipts of the general fund of the Treasury. Fuel inefficiency rebates would be treated as budget outlays which require authorization and appropriation.

2. Standby gasoline tax and rebate

Starting in 1979, a standby gasoline tax would go into effect if the applicable consumption target were not met. Where domestic gasoline consumption for any fiscal year exceeds the target set for that year by 1 percent or more, a gasoline tax would be imposed, starting on January 1 of the following year, at the rate of 5 cents per gallon multiplied by each full percentage point above the target. The tax could not be increased or decreased more than 5 cents from the tax imposed in the previous year, and the cumulative amount of taxes applicable in any one year could not exceed 50 cents per gallon.

The targets allow for limited annual increases in gasoline consumption, from 7.35 million barrels per day for fiscal year 1978 to 7.45 million barrels per day for fiscal year 1980. From 1980 through 1987, annual reductions are targeted, with consumption decreasing to 7.4 million barrels per day for fiscal year 1981 and further decreasing to 6.5 million barrels per day for fiscal year 1987 and years thereafter.

The existing exemption from excise tax generally provided with respect to sales of gasoline to State or local governments and nonprofit educational organizations would not apply to the standby gasoline tax.

Funds collected from the standby gasoline tax would be rebated on a per capita basis, the amount of the per capita rebate being based on estimated standby tax revenues. The net revenues from the tax (after taking account of business tax deductions attributable to the tax and administrative costs of the rebate) would be refunded to consumers on a per capita basis. Generally, this refund would take the form of a tax credit. The credit would be refundable for individuals eligible for the earned income credit, and for individuals having earned income who have dependent children.

Persons entitled to benefits under the Social Security Act or the Railroad Retirement Act having limited taxable income (so that they were unable to benefit from an income tax credit) would receive per capita energy payments in September of each year, beginning in 1979. Similar payments would be made by States to families receiving aid to dependent children with full Federal reimbursement of the costs involved. States would also administer a backup program to make energy payments to individuals not receiving reimbursement under any of the other prescribed reimbursement systems.

The per capita energy payment would be disregarded in connection with the administration of all Federal or Federal financial aid assisted programs. The rebate would not be considered as income or as a reduction in Federal income taxes for purposes of State law. Also, the debate would be taken into account for purposes of Federal income tax withholding.[1]

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[1] This rebate program would be combined with the program for the per capita rebates of the crude oil equalization tax.

3. Motorboat and general aviation fuel

With an exception for commercial airlines and commercial fishermen, the existing Federal excise tax preferences for general aviation and motor boat fuel would be eliminated. The tax on aviation fuel would be increased from 7 to 11 cents per gallon. The current 2 cent rebate for motorboat fuel taxes would be eliminated and the resulting revenues would be transferred to the Land and Water Conservation Fund.

4. Removal of excise tax on buses

The current 10 percent excise tax on buses would be eliminated.

B. Buildings and Equipment

1. Residential conservation

a. Residential energy credit

The credit proposed for qualified residential energy conservation expenditures would be 25 percent of the first $800 of expenditures and 15 percent of the next $1,400 of expenditures for a maximum credit of $410. No additional credit would be allowed for expenditures over $2,200. The credit would be allowed for the cost of energy saving components installed after April 20, 1977, and before January 1, 1985. The maximum credit ($410) is the total credit that would be allowed throughout that period. The credits would not be allowed to exceed an individual's tax liability in any year.

Credits would be allowed only for installation of energy conserving components in the taxpayer's principal residence located in the United States and in existence on April 20, 1977.

Qualified energy saving components include insulation, a replacement furnace burner designed to reduce fuel consumption through increased combustion efficiency, a device to modify flue openings, an electrical or mechanical furnace ignition system replacing a standing gas pilot light, a storm or thermal window, a clock thermostat, and caulking or weatherstripping of exterior doors and windows installed together with insulation or one other energy conserving component. Each type of equipment must be designed to increase the efficiency of the heating system or otherwise improve insulation and have a useful life of at least 3 years, and must not be used property.

b. Residential solar energy installation

For qualified solar energy expenditures, a taxpayer would be allowed a tax credit up to $2,000 in 1977, 1978, and 1979; $1,580 in 1980 and 1981; and $1,210 in 1982, 1983, and 1984.

The rates of credit and applicable time periods are summarized in the table below.

Years	Percent of credit allowed on expenditures of: 0 to $1,000	$1,001 to $7,400	Maximum credit
1977, 1978, and 1979	40	25	$2,000
1980, 1981	30	20	1,580
1982, 1983, and 1984	25	15	1,210

The structure of the credits through these years means that for qualified solar energy expenditures made through 1979, the taxpayer would be allowed credits up to $2,000. The maximum of total credits allowed through 1981 would be $1,580. If the taxpayer has taken more than $1,580 but less than $2,000 in credits before 1980, he would not be allowed any more credits for solar energy during 1980 or any later year. The purpose of these rules is to encourage taxpayers to make these expenditures early. No credits will be allowed for expenditures greater than $7,400. The credits would not be allowed to exceed an individual's tax liability in any year.

Solar energy tax credits would apply to expenditures for installations made after April 20, 1977, and before January 1, 1985, in a dwelling unit located in the United States which is used by the taxpayer as his principal residence at the time. The credit also would be available for the part of the purchase price of a principal residence which represents the cost of solar energy equipment. The type of solar energy equipment which qualifies for the credit will be defined in regulations, but the equipment must be used to cool or heat a building or to heat its hot water, must not be used property, must have a useful life of at least 5 years.

2. Business energy tax credit

Generally, business energy property that is now eligible for the investment credit would be allowed a 10-percent tax credit in addition to the present law investment credit, which is 10 percent through 1980 and 7 percent after 1980. In the case of cogeneration equipment and alternative energy equipment placed in service after 1980, a credit of 20 percent (13 percent additional) would apply rather than 17 percent (10 percent additional). Special business energy property, mainly such structural components as building insulation and heating and cooling equipment (including solar energy equipment), that would not be eligible for the investment tax credit under present law would receive a tax credit of 10 percent. Such special business energy equipment as cogeneration equipment and some types of alternative energy equipment would be eligible for a 20-percent investment credit even if not presently eligible for the investment tax credit. These additional or new credits would be available for qualifying energy equipment acquired by the taxpayer after April 20, 1977, and placed in service before January 1, 1983.

Business energy property includes cogeneration equipment, solar energy equipment, alternative energy equipment and certain other types of equipment which could be made eligible by the Secretary.

Cogeneration equipment means property which could be modified to generate electrical energy in addition to its primary function of producing steam, heat, or other forms of useful energy other than electrical energy which would be used for industrial, commercial, or space heating purposes. This property also would have to meet minimum fuel efficiency requirements prescribed by the Secretary.

Solar energy equipment means equipment which uses solar energy to heat or cool a building to which the equipment is attached, to heat water or to provide heat used in a process carried on in the building.

Alternative energy property covers a broad range of equipment that would use coal or another fuel as a substitute for petroleum or natural

gas or a product derived from petroleum or natural gas. The types of equipment would include boilers, combustors, coal-derived synthetic gas, equipment to manufacture coal-derived chemical feedstocks, coal handling and treatment equipment and pollution control equipment that might be required in connection with the equipment listed above.

In the event that 5-year amortization would be elected for pollution control property having a useful life greater than 5 years, only 50 percent of the investment credit would be allowed. If that equipment would be financed through the issue of industrial development bonds whose interest would be exempt from Federal income tax, only 25 percent of the investment credit would be allowed.

The proposal also would extend the business energy equipment credit to a list of items (which includes insulation, automatic energy control systems and a variety of waste heat recovery equipment) which are installed primarily to reduce the amount of energy consumed in carrying on any manufacturing or production process in the same building or structure. This type of equipment would have to be a new identifiable property which would not significantly alter the manufacturing or production process, but merely would perform an existing process in a manner that would use less energy.

II. OIL AND NATURAL GAS

A. Crude Oil

1. Oil taxes

Under the Administration proposal, all domestic oil production would be subject to a "crude oil equalization tax" which would be imposed in three stages. During the first stage (calendar 1978) a tax of $3.50 per barrel would be imposed on all "first tier" crude oil, which is now controlled at an average price of about $5.17 per barrel. First tier crude oil as defined under current price control regulations is generally "old oil", that is, oil produced on a property which is not in excess of the amount produced during a 1972 or 1975 base period (whichever is lower).

During calendar 1979, the tax would equal the average difference in price per barrel between all first tier oil and all second tier crude oil produced in the United States. Second tier crude oil is oil produced on a property in excess of base period production and is now controlled at price averaging $11.64 per barrel. In 1980, and thereafter, the tax would apply to both first and second tier oil and would equal the difference between the average price of each class of oil and the then current world price of oil. However, the President would be given authority to suspend increases in the tax where he found that that the world price of oil was rising at a rate substantially in excess of the general inflation rate.

Once the tax is fully in effect, the entitlements program would be terminated.

2. Oil rebates

A special rebate would be provided in the case of home heating oil. This rebate would be payable to retailers of home heating oil who could demonstrate that the amount of the rebate had been fully passed through to consumers in the form of lower prices.

All other net revenues from the tax (after taking account of business tax deductions attributable to the tax and administrative costs of the rebate) would be refunded to consumers on a per capita basis. Generally this refund would take the form of an income tax credit. The credit would be refundable for individuals eligible for the earned income credit, and for individuals having earned income who have dependent children.

Persons entitled to benefits under the Social Security Act or the Railroad Retirement Act having limited taxable income (so that they were unable to benefit from an income tax credit) would receive per capita energy payments in September of each year, beginning in 1979. Similar payments would be made by States to families receiving aid to dependent children with full Federal reimbursement of the costs involved. States would also administer a backup program to make energy payments to individuals not receiving reimbursement under any of the other prescribed reimbursement systems.

The per capita energy payment would be disregarded in connection with the administration of all Federal or Federally assisted financial aid programs. The rebate would not be considered as income or as a reduction in Federal incomes taxes for purposes of State law. Also, the rebate would be taken into account for purposes of Federal income tax withholding.[1]

3. Oil pricing

Under current law, all domestic oil production other than stripper oil (oil produced from fields where the average daily production is 10 barrels or less) is subject to price controls. The exact nature of the price controls is determined administratively, but there is a legislatively mandated limit on the average price of nonstripper oil.

Under the existing regulations, old oil is the amount of oil produced on a property up to either 1972 production or 1975 production, whichever is less. New oil is oil produced on a property in excess of this amount. Old oil is controlled at a price averaging about $5.17 per barrel, and new oil is controlled at a price averaging $11.64 a barrel. (The price of any particular barrel of oil may vary by several dollars from these averages depending on the quality of the oil and its location.) Under the Administration proposal, the prices of old oil and what is now new oil would continue to be controlled at current price levels, adjusted only for inflation. These price controls would be permanent as contrasted with the existing price controls which are scheduled to expire in May 1979. There would be a higher price for "new new oil," which is oil discovered after April 20, 1977, in a well that is either more than 2½ miles from an existing onshore well or more than a thousand feet deeper than any well within the 2½-mile radius, as well as oil from an off-shore lease entered after April 20, 1977. New new oil would be priced at the current world price of $13.50 a barrel adjusted upward for inflation.

Tertiary recovery and stripper wells would be free of price controls. Alaskan oil from existing fields would be treated as new oil, and Alaskan oil from new properties would be entitled to receive the 1977 world price. Shale oil would not be subject to price controls and would receive the current world price as in effect from time to time.

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[1] If the standby gasoline tax goes into effect, rebates of the gasoline tax and the crude oil equalization tax would be combined into one program.

B. Industrial use of oil and natural gas

1. Natural gas and petroleum users tax

Under the Administration proposal, a tax would be imposed on industrial and utility use of oil and natural gas.

In the case of petroleum, industrial users would be subject to a tax of $.90 per barrel beginning in 1979. The tax rises gradually to a level of $3.00 per barrel for 1985 and later years.[1]

Electric utilities would be subject to a flat tax of $1.50 per barrel beginning in 1983.

In the case of natural gas, a tax is imposed which—when fully phased in—would have the effect of making natural gas cost equivalent per BTU to the cost of distillate oil (not including the oil users tax). For industrial users the tax would first be imposed in 1979. For that year the tax, when added to the user's cost of the natural gas, would bring the total effective cost to a level $1.05 per million BTUs (i.e., per thousand cubic feet or "mcf" of natural gas) below the price of the same amount of energy in the form of oil. This effective cost differential would gradually decrease (the tax would rise) so that by 1985 oil and natural gas would be cost equivalent for industrial users.

A similar tax would be imposed on electric utilities, except that the tax would first be imposed in 1983. Here the initial tax would bring the utilities cost to a level of $.50 per mcf below the BTU equivalent price of oil and would be fully phased in by 1988.

Certain limited quantities of oil and natural gas would not be subject to tax. (This exemption would be phased out, however, so that large consumers would receive no exemption.) The taxes would be subject to an inflation adjustment and would not be deductible.

Certain uses would be exempt from the taxes, including fertilizer manufacturer, farming, aircraft, rail and water transportation use, and certain limited manufacturing, refining and reprocessing uses. Gasoline and diesel fuel would also be exempt.

2. Coal conservation credit

Industrial users of oil and natural gas would be allowed a credit against their users tax liability for the year for investments made after December 31, 1977, in "alternative energy property." Alternative energy property would include coal fired boilers, or other boilers whose primary fuel was not oil or natural gas, facilities for converting coal into natural gas, other coal conversion equipment, including equipment relating to the processing and handling of coal, and pollution control equipment relating to coal. Excess investment could be carried forward and credited against tax liability for future years.

Utilities would be entitled to a similar credit for investment relating to conversion to the use of coal. However, utilities would be entitled to credit for all such investments made after April 20, 1977.

3. Natural gas pricing

The present interstate-intrastate distinction for price controls would be eliminated (except that gas selling under existing intrastate contracts would not be brought under controls).

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[1] Under the Administration's bill, the tax would actually be imposed on a basis of the BTU content of the oil or natural gas. Natural gas contains about one million BTU per thousand cubic feet; oil, on the average, contains about 5.8 million BTU per barrel.

Under the proposal, new gas (that is, gas found more than two and a half miles, or more than 1,000 feet deeper than gas from any producing well in existence on April 20, 1977, or from an offshore lease entered after that date) would be entitled to receive the BTU equivalent price of domestic crude oil, determined on a nationally weighted average basis. This would be about $1.75 per thousand cubic feet at the beginning of 1978. Intrastate gas made available on the interstate market at the expiration of existing contracts would also be eligible for the $1.75 price.

Old gas would continue to be regulated at current levels (subject to inflation adjustments) and subject to high-incentive pricing for specific categories of high-cost gas. Gas made available from old reservoirs at the expiration of existing interstate contracts would be eligible for a maximum price of $1.45 per mcf, subject to an inflation adjustment.

High-cost gas would be allocated to industrial users.

Federal jurisdiction would be applied to synthetic natural gas facilities to guarantee them a reasonable rate of return.

The Emergency Natural Gas Act of 1977 would be extended for three years to authorize the President to allocate scarce supplies of gas.

III. ENERGY DEVELOPMENT TAX INCENTIVES

A. Geothermal Tax Incentive

Intangible drilling cost deductions would be allowed in the case of wells drilled for geothermal steam and geothermal resources to the same extent and in the same manner as such expenses are deductible in the case of oil and gas wells. The deduction would be allowed for wells commenced after April 20, 1977.

Recapture and treatment as ordinary income would be provided with gain on disposition of the wells attributable to previously claimed intangible drilling cost deductions.

The excess of intangible drilling cost deductions for geothermal wells over the income from interests in geothermal wells would be included in the minimum tax base. In general, the effect would be to apply the minimum tax to these deductions only with respect to investors not actively engaged in geothermal energy production.

B. Minimum Tax Treatment of Intangible Drilling Costs Relating to Oil and Gas Wells

Intangible drilling cost deductions for oil and gas wells would be included in the minimum tax base of individuals only to the extent such deductions exceeded the taxpayer's income from oil and gas properties. In general, the effect would be to remove intangible drilling cost deductions from the minimum tax base of independent oil and gas producers, but not from the minimum tax base of investors who are not actively engaged in oil and gas production.

MAJOR NON-TAX LEGISLATIVE PROPOSALS

I. Conservation

A. Transportation

A Federal van pooling program would be established pursuant to which up to 6,000 vans would be placed in service by the Government and made available for use by Federal employees. The vans would be driven by Federal employees who are commuting to their jobs. All costs of the program would be offset by charges paid by the riders (but not the drivers) to the Federal Government. The program is intended to demonstrate the energy conservation and pollution control potential of van pooling.

B. Buildings and equipment

1. Gas and electric utilities would be required to offer their customers a residential energy conservation service. Under this service, the utility would install energy conservation equipment (such as insulation), and the customer would repay the utility through additions to the monthly utility bills. Customers would have the option of having the equipment installed by a supplier other than the utility. The utilities must also inform customers of other available residential conservation programs and how to obtain financing, materials and labor to perform residential conservation themselves.

2. Loans for residential energy conservation will be made eligible for Federal insurance through the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association.

3. Funding will be increased for the existing low-income residential conservation program (weatherization) to $130 million in fiscal 1978 and $200 million per year in fiscal 1979 and 1980.

4. A Federal grant program would assist public and non-profit schools and hospitals in financing conservation measures. The program would be funded at a rate of $300 million per year for 3 years.

5. Up to $100 million would be spent over the next 3 years to add solar hot water and space heating to suitable Federal buildings to reduce consumption of conventional fuels and to demonstrate the commercial potential of such uses of solar energy.

C. Appliances

Mandatory standards of energy efficiency for certain major home appliances will replace the voluntary targets of existing law as soon as possible. These standards will apply to furnaces, air-conditioners, water heaters, refrigerators and other major home appliances.

D. Cogeneration of electricity and process steam

1. An exemption from Federal and State public utility regulation would be available to organizations using cogeneration to produce electricity.

2. The Federal Energy Administration would be required to establish procedures to assure fair rates for both sale of power by cogenerators and for purchase of back-up power.

3. Organizations using cogeneration would be entitled to use public utility transmission facilities to sell surplus power and buy back-up power at fair prices.

E. Utility rate reform

1. State Public Utility Commissions must require their regulated electric utilities to phase out and eliminate promotional, declining, and other rates for electricity that do not reflect costs.

2. Electric utilities would be required to offer to each customer either time-of-day rates or a load management system, and rates reflecting the savings from this system.

3. Master metering for electricity would generally be prohibited in new structures.

4. State Public Utility Commissions would require gas utilities to eliminate declining block rates and to implement such rules as the FEA may prescribe with respect to master metering, summer-winter rate differentials, and interruptible rates.

5. The Federal Power Commission would be authorized to require interconnection and power pooling between utilities even if they are not presently under FPC jurisdiction, and to require the transmission of power between two noncontiguous utilities across a third utility's system.

II. Coal and nuclear power

A. Coal conversion regulatory policy

1. Industry and utilities would be prohibited from burning natural gas or petroleum in new boilers with only limited environmental and economic exceptions. Industrial firms would also be prohibited from burning gas or petroleum in facilities other than boilers by regulations applicable to types of installations, or on a case-by-case basis.

2. Existing facilities with coal-burning capability would be prohibited from burning gas or oil where the substitution would be economically feasible and environmentally acceptable.

3. With limited temporary exceptions, no utility will be permitted to burn natural gas after 1990.

4. Facilities burning coal would be required to obtain approval to shift to petroleum or natural gas.

5. Utilities burning natural gas would be required to obtain a permit to shift to petroleum.

6. Any industrial firm or utility prohibited from using natural gas would be allowed to sell its contract to purchase gas at a price that would provide adequate compensation.

B. Nuclear power

Legislation, which has been separately submitted, would guarantee the sale of uranium enrichment services to any country agreeing to comply with our non-proliferation objectives.

PROPOSALS FOR ADMINISTRATIVE ACTION

Part of the Administration's energy program may be implemented without legislative action. The more important proposals in this area include the following:

In the area of transportation, the Administration will support vigorous enforcement by the States of the 55-mile-per-hour speed limit (with possible withholding of Federal Highway Funds if States fail to comply). In addition, the Administration will promulgate efficiency standards for light-duty trucks. Also, the Government will purchase automobiles which exceed the mandatory fuel efficiency standards.

In the area of buildings and structures, the Department of Agriculture will implement a rural home weatherization program. The Department of Commerce will encourage State and local governments to include energy conservation items in local public works programs. HUD will advance by one year (to 1980) the effective date of mandatory energy standards required for new residential and commercial buildings. By 1985, Federal agencies will reduce energy consumption from 1975 consumption levels by 20 percent for existing Federal buildings and 45 percent for new Federal buildings.

The Government will implement new data gathering systems in the area of energy reserves, financial information on large petroleum companies and information needed to implement management programs in the event of energy emergencies. The Government will also implement policies to foster competition among oil and gas producers.

The strategic petroleum reserve will be increased from its current level of 500 million to a level of one billion barrels. In the area of coal, a committee will be appointed to study the health effects of increased coal production and use, and there will be a major expansion of Federal research to develop coal derived substitutes for oil and gas.

There will be deferment of commercial reprocessing and recycling of spent nuclear fuels and the fast breeder reactor demonstration project pending further Federal evaluation. There will be an expansion of our uranium enrichment capacity and improvement in the area of safety checks for nuclear plants as well as a review of ERDA's waste disposal program. In addition, there will be an evaluation as to the potential for additional hydroelectric power installations at existing dams.

Federal leasing and environmental policies will encourage the development of geothermal resources.

Further, there will be a study of the United States energy transportation system to promote increased supplies of oil and natural gas from Alaska and the Outer Continental Shelf and to facilitate the transportation of possible further increases in western coal production.

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SUMMARY OF ENERGY LEGISLATION IN THE 94TH CONGRESS

I. H.R. 6860, Energy Conservation and Conversion Act

Legislative history of H.R. 6860, 94th Congress: The bill was reported by the Ways and Means Committee and was amended on the House floor. Markup sessions on H.R. 6860 were held by the Finance Committee in July 1975 and tentative decisions were made in many areas, but the bill was not reported at that time. Many of the provisions approved by the Finance Committee were added to H.R. 10612 (Tax Reform Act of 1976) as Title XX, but they were deleted from that bill in conference. The Finance Committee then reported Title XX as an amended H.R. 6860. It was never taken up on the Senate floor and the provisions expired with adjournment of the 94th Congress.

Unless otherwise indicated, the provisions set forth below reflect H.R. 6860 as approved by the Ways and Means Committee. Subsequent changes on the House floor or in the Senate are specifically noted.

A. Oil import restrictions

1. *Quotas.*—H.R. 6860 imposed mandatory oil import quotas and gave the President limited authority to vary them up or down to take account of unexpected energy needs and to insure that savings in oil consumption were reflected in reduced imports. Imports for strategic oil reserves and petrochemical feedstocks were exempt from the quotas.

This provision passed the House (with an increase in the quota levels), but it was not acted on by the Senate Finance Committee.

2. *Import licensing system.*—Under H.R. 6860, FEA would auction import licenses with separate auctions for large and small refiners. The separate auctions ensured that if the quotas restricted imports, small refiners would receive their fair share of the oil which was imported.

This provision passed the House, but it was not acted on by the Senate Finance Committee.

3. *Duties.*—H.R. 6860 repealed the President's authority to impose restrictions (license fees) on imported oil(except in time of war) [1] and imposed an ad valorem tariff of 2 percent on crude oil and 5 percent on petroleum products. The President was given the authority to increase the rate to 10 percent or $1.00 per barrel, whichever is higher.

This provision passed the House, but it was not acted on by the Senate Finance Committee.

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[1] The President had imposed a $2 per barrel fee. The Court of Appeals had declared this fee illegal, but the Supreme Court reversed the Court of Appeals. President Ford removed the fees in 1975 as part of the agreement to restructure domestic price controls.

B. Gasoline tax and related credit

H.R. 6860 imposed a gasoline tax of 3 cents per gallon and provided that if gasoline consumption increased over the 1973 level an additional 5 cents per gallon (with a 20-cent maximum) would go into effect for each one percent by which consumption exceeded the 1973 level. Special exceptions were provided for construction and migrant workers, farmers, charitable, religious and educational organizations, and governmental bodies. A refundable income tax credit equal to the tax on 480 gallons a year was provided to each individual age 16 or over.

The gas tax provision was eliminated on the House floor by a vote of 345–72, and it was not discussed by the Senate Finance Committee.

This provision was estimated to involve a revenue gain (after taking account of the refundable credits) of $3 billion in 1976, rising to $6.4 billion in 1980. It was estimated that this provision would involve energy savings of 60,000 barrels per day in 1976, rising to 1.12 million barrels per day in 1985.

C. Auto efficiency

1. *Auto efficiency tax or standards.*—H.R. 6860 imposed a graduated excise tax on auto fleets falling short of specified mileage standards in future years.

The standards were changed, and the tax replaced by a civil penalty on the House floor. The Energy Policy and Conservation Act (Public Law 94–163) includes auto efficiency standards and civil penalties similar to those that were adopted on the House floor. The standards are 18.0 MPG in 1978, 20.0 MPG by 1980, and 27.5 MPG by 1985.

2. *Electric cars.*—A House floor amendment provided a 25-percent tax credit for the purchase of electric cars for use on highways. The maximum credit was $750. This provision was estimated to involve a revenue loss of $20 million annually when fully effective.

This provision was not agreed to by the Senate Finance Committee.

D. Incentives for residential energy conservation

1. *Home insulation credit.*—The House version of H.R. 6860 included a 30-percent tax credit for up to $550 of home insulation expenditures or existing homes. The Senate version in the Tax Reform Act made the credit refundable and increased the limit to $750. The revenue loss would have been $450 million in fiscal year 1977 under the House bill and as high as $415 million in 1978 under the Senate bill.

2. *Solar energy equipment.*—Both House and Senate versions of H.R. 6860 provided tax credits of 40 percent of first $1,000 and 25 percent of next $6,400 (up to $2,000) for residential solar energy equipment. The Senate included geothermal energy equipment in this provision. By fiscal year 1981, the House provision would have reduced revenues by $20 million and the Senate provision by $31 million.

3. *Heat pumps.*—The Senate version of the Tax Reform Act included a tax credit of 20 percent of first $1,000 and 12½ percent of next $6,400 (up to $1,000) for heat pumps. The revenue loss would have been as high as $6 million in fiscal year 1979.

4. *Others.*—The Senate also included tax credits of 40 percent of first $1,000 and 20 percent of next $6,400 (up to $2,000) for wind-

related energy equipment. The revenue loss would have been negligible in the time period covered.

E. Excise tax on business use of petroleum

The House bill imposed an excise tax on oil and natural gas used in business as a fuel. The tax on oil would be phased in between 1977 and 1982 and would reach $1 per barrel. The tax on natural gas would have been phased in between 1977 and 1980 and would reach 18 cents per thousand cubic feet. Exemptions were provided for various activities and certain industries.

The Finance Committee approved the provision during markup sessions after adding four more exemptions, but it did not include the provision in any reported bill.

The following is the tax schedule agreed to by both committees:

Year of use	Tax per barrel of oil	Tax per thousand cubic feet
1977	$0.17	$0.04
1978	.33	.08
1979	.50	.12
1980	.67	.18
1981	.83	.18
1982 and thereafter	1.00	.18

This provision would have increased revenues by $400 million in fiscal year 1977, $900 million in 1978, $1.2 billion in 1979, and $1.8 billion in 1980.

F. Tax incentives for business energy conservation and conversion

1. *Qualified energy use property.*—This category includes equipment (a) that processes waste for recycling or use as a fuel, (b) for shale oil conversion, (c) for processing coal into synthetic gas, crude oil and other liquid fuels, and (d) for construction of a coal slurry pipeline.

The House bill provided 5-year, straight-line amortization for such property. The investment credit was made available for this equipment which would be considered as having a 5-year useful life. In the House bill, deep-mining coal equipment would have been the major revenue loser, up to $78 million in fiscal year 1981. The Finance Committee provided a 12-percent investment credit instead of amortization and a partial credit. Equipment relating to the processing of organic materials into fuels, such as methane gas, or directly into energy was also made eligible for these incentives. The deep-mining coal equipment would have lost $11 million in fiscal year 1978.

2. *Qualified railroad equipment.*—The House bill provided 5-year amortization and a two-thirds investment credit for railroad rolling stock, classification yards, communications and freight-handling equipment, railroad ferries, and leased unit trains. The Finance Commitee substituted a 12-percent investment credit for the House-passed incentives, but it also deleted the train ferries. The revenue loss under both versions would have been $5 million or less in each fiscal year. In Title XVII of the Tax Reform Act of 1976, railroad tax provisions relating to replacement railroad ties were modified, fifty-year amorti-

zation was extended to tunnel bores and railroad grading placed in service before 1969, and the limit on the investment tax credit was raised to 100 percent temporarily.

3. *Investment credit changes.*—

a. *Insulation.*—Eligibility for the investment credit was extended temporarily to the initial installation of insulation in existing business properties. Storm or thermal doors and windows also were eligible. Since its initial enactment, the investment credit has not been available for structures and structural components; the latter includes heating, air conditioning and insulation. The peak revenue loss was estimated at $26 million in fiscal year 1978 under the Senate bill and $56 million in 1977 under the House bill.

b. *Solar energy equipment.*—The House extended the investment credit temporarily to solar energy equipment that becomes a structural component of a building. The Finance Committee concurred, added geothermal energy equipment and wind-related equipment used to generate electricity, and raised the credit to 20 percent. The revenue loss would have been negligible in both bills through 1981.

c. *Portable air conditioning and heating units.*—The Finance Committee concurred in the House action to deny the investment credit to portable, self-contained heaters and air conditioners. There would have been a negligible revenue gain from this provision.

d. *Petroleum-powered electrical generating equipment.*—The House-passed bill would have denied the investment credit to electrical generating equipment fueled with petroleum, petroleum products or natural gas. The credit was not denied to synthetic oil or gas derived from coal. The Finance Committee did not report the provision. The provision would have increased revenues by as much as $45 million in fiscal year 1980.

4. *Recycling credit.*—The Ways and Means Committee passed a recycling credit based on purchases of recyclable materials, and the credit could be used when the taxpayer invested in capital equipment used in recycling. It was deleted from the bill on the House floor.

The Finance Committee approved a recycling credit based on purchases of recyclable materials above a base period level. The full Senate substituted and passed (as an amendment to a bill later enacted) a requirement for a six-month study of the need for recycling incentives to be prepared jointly by Treasury and EPA.

5. *Other provisions.*—

a. *Excise taxes on intercity buses, radial tires, and rerefined lubricating oil.*—The House passed provisions that would partially of entirely repeal these excise taxes. The Finance Committee concurred in the House provision to repeal part of the tax on rerefined lubricating oil. The revenue loss would have been $4 million. The Finance Committee extended repeal of the tax on intercity buses to all buses and bus parts. The House provision would have a loss of $9 million in fiscal year 1977, and the Senate version $22 million. The House provision to repeal the excise tax on radial tires and on rubber used to recap radial tires was agreed to by the Finance Committee in July 1975 and was broadened to include tread rubber to recap or retread all tires, but the provision was not included in a reported bill.

b. *Geothermal energy development costs.*—The Finance Committee added to the Tax Reform Act a provision to permit current expensing of intangible drilling costs for geothermal steam and resources. It also provided a deduction of 22 percent of gross income from geothermal steam and resources up to 50 percent of the taxable income from these resources. Revenues would have been reduced by $21 million in fiscal year 1981.

c. The Finance Committee provided an exemption for the excise tax on motor fuels for nonhighway uses of nondiesel special motor fuels, except motorboat and noncommercial aviation uses. The revenue loss would have been negligible.

d. The Finance Committee approved an exemption from duties on oil imported from Canada that is part of an exchange agreement between Canadian and U.S. refiners. There would have been no revenue effect.

G. Energy conservation and conversion trust fund

Under the House version of H.R. 6860, a trust fund was to be established and financed (up to $5 billion a year through fiscal year 1983, and $2.5 billion in 1984) with receipts from the import tariff and the tax on business use of oil and natural gas as a fuel. Subject to annual authorizations and appropriations, the funds could be used for research, development, and/or demonstration of new energy technologies, energy resources from U.S. lands, and efficient public transportation.

The Finance Committee did not adopt this provision. In July 1975, it approved instead an Energy Development Loan Guarantee Fund, but this provision was not included among any of the energy-related provisions subsequently reported out by the Finance Committee.

H. Windfall profits tax

Since 1974, both tax writing committees have agreed to tax bills including a windfall profits tax on crude oil, natural gas liquids, or both.

Essentially, a windfall profits tax is an excise tax in which the amount of tax depends on the price at which the oil or natural gas is sold. Those supporting this tax in the past have done so on the theory that current energy prices are artificially affected by the actions of OPEC, thus resulting in a windfall to domestic producers. Under those windfall taxes considered by Congress in the past, the tax would have been phased out gradually (over perhaps a 5- or 8-year period). A number of the proposals have included a plowback feature, under which part or all of the windfall tax is forgiven if amounts equal to the tax are invested in energy-producing activities.

In 1974, the Ways and Means Committee reported H.R. 14462, which included a windfall profits tax on crude oil. That provision was not taken up on the House floor.

In 1975, during the course of the markup on H.R. 6860, the Ways and Means Committee considered the possibility of including a windfall profits tax on oil and/or natural gas. This tax would have been contingent on price decontrol. However, the windfall provision was not included as part of the reported bill.

In August of 1975, the Finance Committee agreed to a deregulation profits tax, which would have applied to oil and natural gas liquids and was to have been added as a Finance Committee floor amendment to a tariff bill. This deregulation tax was conditional on price decontrol, and the measure died when proposals then pending for rapid or immediate decontrol of energy prices failed to win approval.

Since the windfall tax was last considered by the tax-writing committees, control of oil prices has been substantially restructured under Public Law 94–163 (The "Energy Policy and Conservation Act"—see summary below). Natural gas prices are controlled by the Federal Power Commission. The authority of the FPC extends only to gas which is sold in interstate commerce. Gas which is sold intrastate is not subject to price control. This winter, in order to encourage sales of gas in interstate commerce, the FPC permitted some interstate sales at essentially intrastate price levels.

II. Ford Administration Energy Program

In January 1975, the Ford Administration proposed an energy program, the essential elements of which were:

1. deregulation of oil and gas prices,
2. a windfall profits tax on domestic crude oil.
3. an excise tax of $2 per barrel on domestic crude oil and 37 cents per thousand cubic feet on domestic natural gas,
4. an import fee of $2 per barrel on imported crude oil and petroleum products, and
5. a temporary home insultation credit of 15 percent of the first $1,000 expenditure with a maximum credit of $150.

III. Other Actions

A. "Energy Policy and Conservation Act"—Public Law 94–163 (S. 622), December 22, 1975

1. Continued FEA authority to require utilities and other major fuel users to convert to coal as its primary energy source in certain circumstances.

2. Permits Federal loan guarantees for developing new underground low-sulfur coal mines.

3. Authorizes the President to restrict exports of coal, petroleum, and petroleum products, as well as exports of supplies and equipment related to the further exploration or production of these resources.

4. Authorizes the Secretary of Interior to prescribe a rule which would limit joint bidding on offshore leases by major oil companies.

5. Authorizes the Secretary of Interior to establish maximum efficient rates of production with respect to crude oil and natural gas on Federal lands and to require actual production at these rates.

6. Establishes a Strategic Petroleum Reserve for the storage of up to 1 billion barrels of petroleum products, but not less than 150 million barrels of petroleum products within 3 years.

7. Gives the President standby authority in times of energy emergencies to establish mandatory conservation and rationing measures.

8. Establishes mandatory standards for fuel efficiency by automobile manufacturers, requiring them to meet fleet average miles per gallon standards of 18.0 for 1978 model year cars, 20.0 for 1980 model year cars, and 27.5 for 1985 model year cars. Civil penalties are provided

for those failing to meet the standards. (This provision is a slight modification of the provision adopted on the House floor in its consideration of H.R. 6860.)

9. Requires the FEA to coordinate programs for energy use testing and labeling of major appliances (e.g., air conditioners, refrigerators, water heaters, etc.) ; the FEA is also to set target standards for appliances' energy efficiency and to require manufacturers to report on their progress in meeting these standards. (No penalties are provided for failure to meet these standards, however.)

10. Revises price controls on "old" and "new" oil by setting a single maximum weighted average price for both types of domestic oil (at $7.66 a barrel, plus an annual inflation and production incentive increase of up to 10 percent per year). Actual prices for old and new oil are to be set at the FEA's discretion, subject to the maximum weighted average price of $7.66 plus the annual 10 percent factor.

B. "Naval Petroleum Reserves Production Act of 1976"—Public Law 94-258 (H.R. 49), April 5, 1976

Transfers Naval Petroleum Reserve No. 4, Alaska, to the Secretary of the Interior. Prohibits production, but the Secretary was directed to continue exploration and study the best methods of development of petroleum from this reserve. In addition, the law requires production of Naval Petroleum Reserves Nos. 1, 2 and 3 at the maximum efficient rate for a period not to exceed 6 years and the construction of storage and shipping facilities for the oil produced.

C. "Energy Conservation and Production Act"—Public Law 94-385 (H.R. 12169), August 14, 1976

1. Extends the Federal Energy Administration through 1977.

2. Provides price incentives for stripper well production and secondary and tertiary recovery methods.

3. Establishes an Office of Energy Information and Analysis in the FEA and requires the Office to establish a National Energy Information System.

4. Requires the National Bureau of Standards to assist FEA in developing an energy efficiency improvement target for appliances.

5. Directs the Energy Resources Council to prepare an annual report (beginning July 1, 1977) reviewing: Federal energy conservation activities; the correctness of all energy conservation targets and progress toward their achievement; progress under State energy conservation plans; private conservation efforts and the Federal Government's efforts to promote them; and whether existing conservation targets and goals are adequate to bridge the gap between domestic energy production capacity and needs and whether additional incentives programs, including mandatory measures, might be useful to balance domestic supply and demand.

6. Requires the FEA to develop proposals for improvement of electric utility rate design, to fund demonstration projects, to participate in proceedings of utility regulatory commissions and provide financial assistance to State offices of consumer services to assist presentation of consumer interests before these commissions.

7. Requires the promulgation of performance standards for new buildings and denies any Federal financial assistance to any new build-

ing not meeting such standards. Grants may be made to States to assist them in meeting performance standards. Federal buildings must meet these standards. These standards must be promulgated no later than 3 years after the date of enactment.

8. Directs the FEA to work with States to provide financial assistance to low-income persons for insulating dwellings.

9. Directs the FEA to develop regulations for funding supplemental State energy conservation plans.

10. Directs the Secretary of HUD to implement a national demonstration program to test various forms of financial assistance to encourage energy saving methods in existing housing.

11. Permits the FEA to guarantee loans to finance the installation of energy saving measures in existing buildings and industrial facilities.

D. "Alaska Natural Gas Transportation Act of 1976"—Public Law 94–586 (S. 3521), October 22, 1976

The bill is designed to expedite a decision on the selection of and the construction of a transportation system to transport natural gas to the contiguous States by involving Congress and the President in the selection process and limiting the jurisdiction of the Courts and the administrative procedures involved.

E. "Emergency Natural Gas Act of 1977"—Public Law 95–2 (S. 474), February 2, 1977

This Act grants the President, until April 30, 1977, the authority to order emergency deliveries of natural gas supplies between interstate pipelines and distribution companies served by such pipelines on a finding that maintenance of natural gas supplies to residential and other high priority users is in danger and that all reasonable remedies to maintain such supplies have been exhausted. In addition to residents, high priority users include small businesses (using less than 50 mcf on a peak day) and other essential users, such as schools, nursing homes, hospitals, etc., where the loss of heat would threaten life, health, or property. Also, the President may order deliveries to prevent irreparable damage to major industrial facilities as a result of freezing weather. The Act also authorizes the President, until July 31, 1977, to approve emergency sales of natural gas to interstate pipelines at unregulated prices subject to his authority, to prescribe the terms and conditions for such sales and to determine if such sales are made at a fair and equitable price.

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